

Is South Africa going broke?

Is there a fiscal crisis in SA? This is a nice way of asking if SA is going broke?

In my opinion there are sufficient signs to warrant concern. In 2008 SA domestic debt as % of GDP stood at only 21,5%, today our debt to GDP is at 41,5%. When compared to the developed world this actually sounds good, by example US debt to GDP is currently at 101%. However, when you consider the underling drivers, the future looks bleak.

Not so long ago SA finances were in great shape, we actually enjoyed a budget surplus from 2006 – 2008 with fiscal revenue exceeding expenses and then came a double whammy; the global financial crisis and the ousting of the Mbeki Government by Zuma and his cronies. The global financial crisis resulted in a collapse of revenue, whilst the Zuma government resulted in an explosion of expenditure. The increase in expenditure is most likely what cushioned the SA economy during the crisis as we seemed to sail through the crisis relative to the rest of the world.

Unfortunately this was not a function of clever fiscal policy, but rather the start of the current fiscal deterioration, which is unlikely to be stopped until something breaks.

As the world recovers from the global finan-

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cial crisis our tax revenues so too have recovered, but not nearly enough to match the increase in government expenditure. SA annual fiscal deficit as % of GDP is currently at 5%. Revenue is likely to remain under pressure as the economy slows on the back of a weak mining sector and a consumer under pressure from excess debt, rising interest rates and falling real (after inflation) income. The real concern, however, is on the expenditure side with government salaries and wages of R440 billion and social grants of R120 billion making up 50% of the total budget of R1,1 trillion. This is

quite simply a policy of Wealth Redistribution.

My advice is to get a government job. Interesting to note that the average government salary now exceeds the average private sector salary in South Africa. Redistribution of wealth is not a viable policy and will simply make everyone poor. For investors the long-term plan must be to diversify your currency risk as this is the release valve for the current pressures, which are building.

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